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2015 FEB 20 P 4: 27

AZ CORP COMMISSION  
DOCKET CONTROL

**BEFORE THE ARIZONA CORPORATION COMMISSION**

**COMMISSIONERS**

SUSAN BITTER SMITH, CHAIRMAN  
BOB STUMP  
BOB BURNS  
TOM FORESE  
DOUG LITTLE

Arizona Corporation Commission

**DOCKETED**

FEB 20 2015

DOCKETED BY

**ORIGINAL**

IN THE MATTER OF THE APPLICATION  
OF DRAGOON WATER COMPANY, INC.  
FOR AN INCREASE IN ITS RATES; AND

DOCKET NO. W-01917A-14-0312  
NO. W-01917A-14-0313

IN THE MATTER OF THE APPLICATION  
OF DRAGOON WATER COMPANY, INC.  
FOR AUTHORITY TO INCUR LONG-  
TERM DEBT.

**COMMENTS TO STAFF REPORT**

Dragoon Water Company, Inc. ("Company") hereby responds to the Staff Report  
in this matter.

**Letter of Good Standing**

Staff recommends the new rates not become effective until the Company files a  
Certificate of Compliance Letter of Good Standing issued by the Arizona Department of

1 Revenue. A copy of this letter issued on September 22, 2014, is set forth in Attachment  
2 1. Therefore, the recommendation is now moot.  
3

#### 4 **Loan Repayment**

5 On September 13, 2013, Dragoon's primary well pump failed and the Company  
6 did not have the money to fund the repairs or the necessary water hauling. Southwestern  
7 Utility Management ("Southwestern") loaned the Company \$26,000 as a short-term loan  
8 so that the well could be repaired. Had Southwestern not provided the cash, Dragoon's  
9 customers would have been without water for an extended period of time. Unfortunately,  
10 Dragoon's financial position did not allow the Company to repay the entire loan. The  
11 Company still owes Southwestern \$13,194.49.  
12  
13

14 Staff suggests a surcharge of \$2.75 be applied to the typical residential customer  
15 (using a 5/8 by 3/4 inch meter) over the next five years to generate the revenues to repay  
16 the loan. The Company believes this payback period is too long. As the Commission  
17 and Staff are well aware, Southwestern often provides short term loans to small, cash-  
18 strapped water companies needing emergency repairs. This practice is a huge benefit to  
19 the companies Southwestern manages as well as their customers. While Southwestern  
20 understands that it usually takes several months to repay the debt, the management  
21 company should not be required to wait five years for payment in full. Such an extended  
22 payback period will have a chilling effect on Southwestern's willingness to extend loans  
23 to small water companies facing emergency water outages.  
24  
25  
26

27 Dragoon suggests a repayment proposal similar to what Staff proposed, except  
28 with a shorter repayment period. See Attachment 2. Again, Southwestern has already

1 been waiting since September of 2013 to be repaid. With this in mind, the Company  
2 suggests a surcharge in the amount of \$5.00 for the typical residential customer.

3  
4 Customers with larger meters would pay more based upon a meter multiplier consistent  
5 with Staff's proposal. This approach will enable Dragoon to repay Southwestern the  
6 remaining debt in 28 months. This approach balances the need to repay Southwestern in  
7 a reasonable time and ensuring customers do not pay an unreasonable monthly surcharge.  
8

### 9 **Technical Assistance Grant**

10 Staff recommends that the Company be ordered to apply for a WIFA Technical  
11 Assistance Grant to pay for an engineer to analyze the Company's water loss situation.  
12 Applying for such a grant will cost the Company approximately \$2,000. Further, if the  
13 grant is approved, the Company will have to pay between 25% and 50% of the cost of the  
14 study. These costs have no corresponding revenue in Staff's proposal.  
15  
16

17 While the Company will continue to address the water loss issue, it does not want  
18 to incur unfunded extraordinary expenses at this time. The Company would not be  
19 opposed to an order that includes funds in rates to pay for the cost to produce a grant  
20 application and an engineer to study the water loss situation. The Company believes this  
21 will cost approximately \$20,000. Normalized over four years, this means the annual  
22 revenue requirement would increase by \$5,000 per year.  
23  
24


### 25 **Best Management Practices**

26 Staff recommends the Commission require the Company to file three BMPs in the  
27 form of tariffs. The Company opposes this recommendation. As noted in Commission  
28 Decision No. 74900, "BPMs are a creation of ADWR and [Naco Water Company] is not

1 required to adopt BMPs under ADWR rules. Recent Commission Decisions have opted  
2 not to adopt BMPs for companies that have objected to their imposition.” In the Naco  
3 matter, the Commission encouraged Naco to consider implementing BMPs, but there was  
4 no requirement to do so. Dragoon believes the approach adopted in the Naco case is  
5 reasonable and the recommended opinion and recommendation here should be similar.  
6

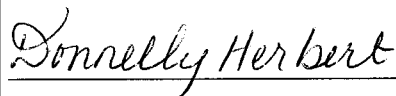
7  
8 RESPECTFULLY SUBMITTED this 20<sup>th</sup> day of February, 2015.

9 **MOYES SELLERS & HENDRICKS**

10  
11   
12 Steve Wene

13  
14 Original and 13 copies of the foregoing  
15 filed February 20, 2015, with:

16 Docket Control  
17 Arizona Corporation Commission  
18 1200 West Washington  
19 Phoenix, Arizona 85007

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21  
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# **ATTACHMENT 1**

# Certificate of Compliance Letter of Good Standing DRAGON WATER COMPANY

This Certificate of Compliance is issued pursuant to Arizona Revised Statutes Section 42-1110 and/or Section 43-1151. It certifies that, according to department records, the above named taxpayer has filed and paid all taxes due under Title 42 and Title 43, specifically and only as to the following described tax types and identification/license numbers:

## TAX TYPE

Federal Employer Identification Number

Transaction Privilege Tax License

## IDENTIFICATION

86-6052019

02-004563-Y

This certification is made conditionally and is subject to the findings of any subsequent audit.

Issued To:  
Dragoon Water Company  
Attn: Kevin Sullivan  
P.O. Box 851600  
Tucson, AZ 85754

Wendy Birmingham  
Director  
Phone: 602-716-5234  
September 22, 2014



# **ATTACHMENT 2**

Amount Financed: \$ 13,194.00  
Number of years: 2.33      Compounding Periods: 12  
Interest rate (r): 4.69%      4.79%

**LOAN AMORTIZATION SCHEDULE**

Period	Loan payment (1)	Beginning- of-month principal (2)	Payments		Month end principal [(2) - (4)] (5)
			Interest [ r * (2)] (3)	Principal [(1) - (3)] (4)	
1	\$ 499.06	\$ 13,194.00	\$ 51.57	\$ 447.50	\$ 12,746.50
2	499.06	12,746.50	49.82	449.24	12,297.26
3	499.06	12,297.26	48.06	451.00	11,846.26
4	499.06	11,846.26	46.30	452.76	11,393.50
5	499.06	11,393.50	44.53	454.53	10,938.97
6	499.06	10,938.97	42.75	456.31	10,482.66
7	499.06	10,482.66	40.97	458.09	10,024.56
8	499.06	10,024.56	39.18	459.88	9,564.68
9	499.06	9,564.68	37.38	461.68	9,103.00
10	499.06	9,103.00	35.58	463.48	8,639.52
11	499.06	8,639.52	33.77	465.30	8,174.22
12	499.06	8,174.22	31.95	467.11	7,707.11
13	499.06	7,707.11	30.12	468.94	7,238.17
14	499.06	7,238.17	28.29	470.77	6,767.40
15	499.06	6,767.40	26.45	472.61	6,294.78
16	499.06	6,294.78	24.60	474.46	5,820.32
17	499.06	5,820.32	22.75	476.31	5,344.01
18	499.06	5,344.01	20.89	478.18	4,865.83
19	499.06	4,865.83	19.02	480.04	4,385.79
20	499.06	4,385.79	17.14	481.92	3,903.87
21	499.06	3,903.87	15.26	483.80	3,420.06
22	499.06	3,420.06	13.37	485.70	2,934.37
23	499.06	2,934.37	11.47	487.59	2,446.78
24	499.06	2,446.78	9.56	489.50	1,957.28
25	499.06	1,957.28	7.65	491.41	1,465.86
26	499.06	1,465.86	5.73	493.33	972.53
27	499.06	972.53	3.80	495.26	477.27
28	479.14	477.27	1.87	477.27	0.00
Totals	<u>\$ 13,953.81</u>		<u>\$ 759.81</u>	<u>\$ 13,194.00</u>	



### CALCULATION OF INFRASTRUCTURE SURCHARGE AMOUNT

Proposed Monthly Payment Amount to Southwestern:	\$ 499.06
Months in year	<u>12</u>
Annual cash flow needed for loan payments	\$ 5,988.74
Incremental Taxes	<u>1,419.93</u>
Total Surcharge Required Annually	<u><u>\$ 7,408.67</u></u>

#### **Proposed Surcharge Amounts**

5/8 x 3/4" meter surcharge amount	\$ 5.00
3/4" meter surcharge amount	7.50
1" meter surcharge amount	12.50
1 1/2" meter surcharge amount	25.00
2" meter surcharge amount	40.00
3" meter surcharge amount	80.00
4" meter surcharge amount	125.00
6" meter surcharge amount	250.00

#### **Proof of Surcharge Revenue**

Meter size	Annual Bills	Surcharge Amount	Annual Surcharge Revenue
5/8 x 3/4" meter	1,218	\$ 5.00	\$ 6,090.00
1" meter	118	12.50	<u>1,475.00</u>
Annual Estimated Surcharge Collected			<u><u>\$ 7,565.00</u></u>